

BEFORE THE STATE BOARD OF EQUALIZATION  
OF THE STATE OF CALIFORNIA

In the Matter of the Appeal. of  
SANTA ANA SAVINGS AND LOAN ASSOCIATION

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Appearances: '

For Appellant: Neil. R. Bersch, Certified Public  
Accountant

For Respondent: Peter S. Pierson  
Associate Tax Counsel

O P I N I O N

This appeal is made pursuant to section 26077 of the Revenue and Taxation Code from the action of the Franchise Tax Board in denying the claim of Santa Ana Savings and Loan Association for refund of franchise tax in the amount of \$12,566.46 for the income year 1958.

Appellant is a savings and loan association, incorporated under California law, During the period of 1929 through 1944, appellant incurred bad debt losses ranging from \$1.27 to \$28,040 in each year, representing from .008 percent to 3.9 percent of its outstanding loans. Thereafter, it incurred, no bad debt losses until 1948, when it, lost \$6,774, representing .1 percent of its outstanding loans, No further losses were incurred through the year 1958.

Pursuant to an informal ruling issued by respondent Franchise Tax Board in 1943, applying to all savings and loan associations, appellant elected to use the reserve method of accounting for its bad debts, As permitted by the ruling, it added to its reserve and deducted for each of the income years 1942 through 1958, a sum equal to .2 percent of its outstanding loans. As of December 31, 1958, appellant's accumulated reserve resulting from these additions amounted to \$380,873.

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Subsequently, respondent adopted a formal regulation applying to savings and loan associations, (Cal, Admin. Code, tit. 18, reg. 24348(a).) This regulation permitted a 'choice' of methods for computing a deductible addition to a bad debt reserve. One of the methods allowed an annual deduction of a percentage of loans equivalent to the average ratio of losses to loans during the 20-year period of 1928 through 1947, 'The application of the regulation was expressly limited to income years beginning after 1958.

Early in 1963, appellant claimed a refund for the income year 1958, based on increasing its bad debt deduction for that income year to approximately .8 percent of the loans outstanding at the end of that year,, This percentage represented appellant's average loss ratio for the 20-year period of 1928' through 1947, Respondent disallowed the claim on the ground that the deduction previously taken by appellant was adequate, and this appeal followed,

The facts and arguments in this appeal are much the same as those in the Appeal of Pioneer Investors Savings and Loan Association, this day decided by us. In that case we held that a reserve in excess of one million dollars in 1958 was adequate in view of the fact that losses had been incurred in only two of the years since 1941, totaling \$77,000. Here, appellant incurred losses in but one of the years since 1944, totaling \$6,774, Upon these facts, we conclude that appellant's reserve in excess of \$380,000 at the end of 1958 was adequate,

O R D E R

Pursuant to the views expressed in the opinion of the board on file in this proceeding, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED, pursuant to section 26077 of the Revenue and Taxation Code that the action of the Franchise Tax Board in denying the **claim** of Santa

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Ana Savings and Loan Association for refund of, franchise tax in the amount of \$12,566.46 for the income year 1958 be and the same is hereby sustained,

Done at Sacramento, California, this 7<sup>th</sup> day of January, 1966, by the State Board of Equalization.

Geoffrey P. Kelly, Chairman  
John W. Lough, Member  
Robert K. Hines, Member  
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ATTEST: [Signature], Secretary